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March 2, 2009

Robert Walters
President, Board of Directors
San Juan Water District
9935 Auburn Folsom Road
Granite Bay, CA 95746

Dear Mr. Walters:

First, we would like to thank you for taking the time to submit comments regarding the proposed amendments to the regulatory action by CalPERS on the participation in risk pools. This letter is in response to the comments you submitted to CalPERS in your letter dated February 11, 2009.

At first, you expressed concern about the fact that due to current demographics and recent actuarial experience, the 3% at age 60 risk pool benefited for the last few years from the District's participation. Your comments are aimed at pooling rather than at the specific proposed amendments to existing regulations.

Your overall impression of pooling tends to focus on the potential negative impact to your organization. As you are no doubt aware, the true merit in pooling is your own protection against demographic calamities. While you share a small cost when you help absorb the cost of a disability or death at another employer, you reap significant savings if that event happened to one of your employees.

Second, your letter indicates your support of the proposed amendments to the risk pool regulations. You propose to further amend Section 588.2 to ensure that all existing risk pool agencies are noticed in the event the CalPERS Board were to hold a hearing on deciding whether an employer would be permitted to join a pool for the purpose of allowing affected contracting agencies to be able to participate in the hearing and weigh in on decisions that could affect their costs. Note that once a hearing is scheduled by the Board, public notice is required by law.¹ Therefore, we do not think it is necessary to add language requiring notice of a hearing.

Finally, in your letter your District suggests further amendments to address the enrichment of pension benefits by an existing contracting agency. The particular

¹ The Public Employees' Retirement Law at Government Code section 20134 requires that Board hearings be conducted in accordance with the Administrative Procedure Act, (Chapter 5 (commencing with Section 11500) of Part 1 of Division 3 of the Government Code).

concerns are employers who substantially increase the scope of their retirement packages after joining a risk pool or who permit "spiking" by radically increasing the employees' final compensation.

Be aware that since the inception of risk pools, employers contracting for more generous benefits have always and will continue to be responsible for such higher benefits through charges to their own "side funds" and surcharges. Because employers who participate in risk pools are required to pay for more expensive benefits through their "side funds" and surcharges, the cost of more generous retirement benefits by some employers is not born by other employers providing lower levels of benefits.

With respect to your comment on "spiking of employees' final compensation, CalPERS is guided by statute on compensation reporting. We note that your policies are based on the limitations already contained in the Public Employees' Retirement Law cited in the District's policy which you attached to your comment letter. In addition, CalPERS carefully reviews final compensation before calculating retirement benefits to ensure that unlawful spiking is not allowed. If you believe further changes are necessary, we suggest that such changes to compensation reporting be proposed by you to the Legislature or to an employer organization like the League of California Cities.

Again, we thank you for your thoughtful and constructive comments, and would be pleased to discuss any questions you may have about the responses contained in this letter.

In addition, be advised that a public hearing on the Proposed Amendments to Regulations for Risk Pools will be held on March 17th, 2009 at CalPERS Lincoln Plaza North, Auditorium, 400 Q Street, Sacramento.

Yours truly,

Jean Fannjiang
Associate Pension Actuary